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PP RUEHBZ RUEH DU RUEHMR RUEHRN
DE RUEHSB #0709 2471018
ZNY CCCCC ZZH
P 041018Z SEP 09
FM AMEMBASSY HARARE
TO RUEHC/SECSTATE WASHDC PRIORITY 4871
INFO RUCNSAD/SOUTHERN AF DEVELOPMENT COMMUNITY COLLECTIVE
RUEHAR/AMEMBASSY ACCRA 3006
RUEHDS/AMEMBASSY ADDIS ABABA 3121
RUEHRL/AMEMBASSY BERLIN 1550
RUEHBY/AMEMBASSY CANBERRA 2384
RUEHDK/AMEMBASSY DAKAR 2751
RUEHKM/AMEMBASSY KAMPALA 3169
RUEHNR/AMEMBASSY NAIROBI 5614
RUEATRS/DEPT OF TREASURY WASHDC
RUEAIIA/CIA WASHDC
RUZEJAA/JAC MOLESWORTH RAF MOLESWORTH UK
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RHEFDIA/DIA WASHDC
RUEHGV/USMISSION GENEVA 2297
RHEHAAA/NSC WASHDC

C O N F I D E N T I A L HARARE 000709

SIPDIS

AF/S FOR B. WALCH
DRL FOR N. WILETT
ADDIS ABABA FOR USAU
ADDIS ABABA FOR ACSS
STATE PASS TO USAID FOR J. HARMON AND L. DOBBINS
STATE PASS TO NSC FOR SENIOR AFRICA DIRECTOR MICHELLE GAVIN

E.O. 12958: DECL: 09/04/2019

TAGS: [ECON](#) [EFIN](#) [PGOV](#) [ZI](#)

SUBJECT: ZIMBABWE CENTRAL BANK REFORM: ONE STEP FORWARD,
TWO STEPS BACK

REF: HARARE 670

Classified By: Classified by: CDA Donald Petterson, Reason: 1.4 (b)

¶1. (C) SUMMARY: A bill now before Parliament seeks to reduce the authority of the Governor of the Reserve Bank of Zimbabwe (RBZ) and put the Ministry of Finance in charge of monetary policy. If it becomes law, the bill would ban the hyper-inflationary practices RBZ Governor Gideon Gono has used since 2003 to support Government of Zimbabwe (GOZ) policies. That should improve public confidence while Gono remains on the scene, but the bill is not a long-term solution. By putting the RBZ squarely under the control of the Ministry, it leaves the door wide open for more politically-directed monetary policy in the future. END SUMMARY.

¶2. (U) The bill introduced to Parliament on August 14 strictly limits the RBZ's capacity to finance GOZ operations. It caps the outstanding total of RBZ loans to the GOZ at 20 percent of the GOZ's revenue in the previous year. The law also bans the RBZ's quasi-fiscal operations, which Gono had used to finance the GOZ on a grand scale, ultimately triggering hyperinflation. Additionally, the RBZ would not be allowed to borrow foreign currency or deal in precious metals on its own behalf.

¶3. (U) If it becomes law, the bill would significantly reduce the authority of the Governor and end presidential prerogatives over RBZ policy. For example, GOZ instructions to the Governor could only be transmitted via the Minister of Finance, in writing. The Governor would no longer control monetary policy, which would become the responsibility of a committee. While the President would appoint most members of the committee, the committee's latitude on policy would be constrained by the macroeconomic targets set out in the national budget. Additionally, the Minister of Finance would also have to authorize any interaction between the Governor and international financial institutions.

¶4. (U) The bill leaves in place a provision in the RBZ statute that gives the Minister of Finance responsibility for exchange-rate policy. But it adds a requirement that the RBZ must cover 100 percent of its liabilities to the public with either gold or assets denominated in foreign currency. If enacted, this feature of the bill would effectively exclude the vague scheme Gono recently proposed, under which a re-introduced Zimbabwe dollar would somehow be backed by the country's mineral reserves.

¶5. (C) COMMENT: Dollarization of Zimbabwe's economy has already clipped Gono's wings, but his continued presence in the RBZ's top post, and his predilection for self-serving public statements, add to the public's apprehension about what he might still have up his sleeve. So if the bill goes through (an RBZ source says it is a done deal), the problem with Gono at the RBZ will have been "depersonalized," as Finance Minister Biti has told us (reftel). But by tying the RBZ closely to the Minister of Finance, the bill does not advance the cause of institutional reform. Before long, Zimbabwe will need another central-bank reform bill, or continued political control of monetary policy will inevitably undermine confidence, deter investment, and slow economic recovery. END COMMENT.

PETTERSON